Dali & Samir Engineering Private Limited

July 23, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	28.22	CARE BBB; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings to the bank facilities of Dali & Samir Engineering Private Limited (DSEPL) derives strength from experienced management along with long track record of operations, established and long-standing relationship with reputed clientele. The ratings further derive strength from comfortable capital structure and debt coverage indicators and adequate liquidity position.

However, the ratings continue to be constrained by working capital intensive nature of operations, susceptibility of profitability to fluctuations in raw material prices and presence in a highly competitive and cyclical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs. 350 crores on sustained basis
- Decrease in operating cycle below 40 days on sustained basis

Negative factors

- Deterioration in capital structure with overall gearing above 1x on a sustained basis
- Decrease in PBILDT margins below 4.50% on sustained basis

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company will continue to benefit from experienced promoters and established relations with its reputed customers and is likely to maintain its comfortable financial risk profile in the medium term.

Detailed description of the key rating drivers:

Key strengths

Well-established track record and extensive experience of management in the industry

With over five decades of operations in the industry, DSEPL has developed long-standing and established relationships with its clientele. The directors Mr. Samir Salian and Mr. Sandesh Salian have an experience of more than two decades in the industry. Their experience and strong understanding of market dynamics has enabled DSEPL to maintain healthy relations with customers and suppliers and entail repeat orders from them. They are supported by a qualified team of professionals with significant experience in their respective fields.

Association with reputed clientele; albeit customer concentration risk

DSEPL offers a wide range of products including fuel tanks, exhaust systems, oil pans, hydraulic tanks, vacuum tanks, and surge tanks for sectors like automotive and defence. DSEPL primarily caters to OEMs and other major players like Tata Motors Limited, Ashok Leyland Limited, Mahindra & Mahindra Limited among others in the domestic market. However, the customer base is concentrated with top 5 clients contributing to around 70% of its revenues. The counterparty risk is mitigated by association with reputed clientele.

Moderate scale of operations and profitability

The total operating income declined by 4.35% from ₹242.53 crore in FY23 (refers to period April 01 to March 31) to ₹231.99 crore in FY24 due to decline in sales realizations of fuel tanks. Going forward, the scale is expected to increase owing to significant growth expected from export business, product diversification and addition of new customers. Furthermore, the company has booked sales of ₹61 crore in Q1FY25 (refers to period April 01 to June 30).

PBILDT margin continues to remain moderate at 5.43% in FY24 (PY: 5.47%). The PAT margins improved to 3.26% in FY24 (PY: 2.77%) owing to lower interest costs. Going forward, the profitability margins are expected to remain stable.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and debt coverage indicators
As on March 31, 2024, the capital structure improved and continued to remain comfortable with an overall gearing of 0.29x (PY: 0.39x) owing to lower utilization of the working capital limit as on balance sheet date and accretion of profits to reserves. In the absence of any debt funded capital expenditure (capex), the capital structure is expected to remain comfortable over the medium term.
Due to improvement in cash accruals, total debt/GCA improved to 1.24x in FY24 (PY: 1.48x). Further, lower interest cost in FY24 resulted in the improvement of interest coverage ratio to 23.94x from 10.86x in FY23.

Key weaknesses

Working capital intensive nature of operations
Being in the auto ancillary industry, the company's operations remain working capital intensive. The operating cycle remained moderate around 45 days in FY24, primarily driven by a moderate collection period of 44 days.
Also, DSEPL has to maintain sufficient inventory to ensure uninterrupted production and timely execution of orders. However, the order-backed nature of inventory mitigates this risk to a certain extent. Currently, the company meets its working capital requirements through a mix of internal accruals and working capital facilities from banks.

Susceptibility of profitability to fluctuations in raw material prices
The primary raw material required by the company is MS-Steel, the prices of which are volatile in nature. Therefore, the cost base remains exposed to any adverse price fluctuations in the prices of raw materials. However, DSEPL has entered into tripartite agreement with OEMs and suppliers which mitigates the risk to a certain extent.

Exposure to cyclicality in automobile industry
Automotive industry is subject to cyclical variations in performance and is sensitive to demand and government policy changes. DSEPL's performance remains closely aligned to the performance of key customers and in-turn exposed to cyclical demand patterns inherent to the automobile industry and ability of the OEMs and their tier-1 vendors to sustain their operating performance.

Presence in highly competitive industry
The auto components industry is highly competitive with the presence of a large number of organised and unorganised players and is characterised by high degree of fragmentation. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. There also exist big-sized players resulting in intense competition in the industry.

Liquidity: Adequate

The liquidity position is adequate marked by the annual gross cash accruals of ₹12-15 crore against annual repayment obligations of around ₹1 crore over FY25-FY27. As on March 31, 2024, free cash and bank balance stood at ₹7.21 crore. Also, the average maximum utilization of working capital limits stood low at around 20% for the twelve months ended March 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

In 1972, Mr. M. C. Salian and Mrs. Indira M. Salian established Dali & Samir Engineering Private Limited (DSEPL) as a partnership firm, which was reconstituted as a private limited company in 1979. DSEPL is engaged in the manufacturing of fuel tanks, exhaust systems, oil pans, cross car beams, hydraulic tanks, vacuum tanks, and surge tanks. These products find applications in industries such as automotive, agriculture, and defence. DSEPL has four manufacturing facilities located at Chinchwad (Pune), Chakan (Pune), Hosur (Tamil Nadu) and Pantnagar (Uttarakhand).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	June 30, 2024 (Prov.)
Total operating income	242.53	231.99	61.00
PBILDT	13.27	12.59	NA
PAT	6.71	7.57	NA
Overall gearing (times)	0.39	0.29	NA
Interest coverage (times)	10.86	23.94	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	28.22	CARE BBB; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (18-Aug-23)	1)CARE BBB-; Stable (30-Aug-22)	1)CARE BBB-; Stable (08-Nov-21)
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	28.22	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (18-Aug-23)	1)CARE BBB-; Stable / CARE A3 (30-Aug-22)	1)CARE BBB-; Stable / CARE A3 (08-Nov-21)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
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